

Department of Homeland Security **Office of Inspector General**

Department of Homeland Security's FY 2013 Compliance with the Improper Payments Elimination and Recovery Act of 2010






OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

APR 14 2014

MEMORANDUM FOR: Stacy Marcott
Deputy Chief Financial Officer

FROM: Anne L. Richards 
Assistant Inspector General for Audits

SUBJECT: *Department of Homeland Security's FY 2013 Compliance
with the Improper Payments Elimination and Recovery Act
of 2010*

Attached for your information is our final report, *Department of Homeland Security's FY 2013 Compliance with the Improper Payments Elimination and Recovery Act of 2010*. We incorporated the formal comments from the Departmental GAO-OIG Liaison Office in the final report.

This report does not contain any new recommendations. However, one recommendation from our report *Department of Homeland Security's FY 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG-13-47, March 2013, remains open and resolved. Once your office has fully implemented the recommendation, please submit a formal closeout request to us within 30 days so that we may close the recommendation. The request should be accompanied by evidence of completion of agreed-upon corrective actions.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Mark Bell, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



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Abbreviations

AFR	Annual Financial Report/Agency Financial Report ¹
CBP	U.S. Customs and Border Protection
CFO	Chief Financial Officer
DHS	Department of Homeland Security
DNDO	Domestic Nuclear Detection Office
FEMA	Federal Emergency Management Agency
FY	fiscal year
IPERA	<i>Improper Payments Elimination and Recovery Act of 2010</i>
IPIA	<i>Improper Payments Information Act of 2002</i>
OIG	Office of Inspector General
OMB	Office of Management and Budget

¹ Annual Financial Report and Agency Financial Report are used synonymously throughout Federal guidance. For the purpose of this report, AFR will represent both the Annual Financial Report and Agency Financial Report.



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RM&A	Risk Management and Assurance
TSA	Transportation Security Administration
USCG	United States Coast Guard
USSS	United States Secret Service



Executive Summary

In fiscal year (FY) 2010, the Federal government's total improper payment amount reached \$121 billion. In that same year, Congress passed the *Improper Payments Elimination and Recovery Act of 2010* (the Act) in an effort to reduce improper payments. In addition to reducing improper payments, the Act requires each agency's Inspector General to determine whether the agency complies with the Act annually. Since the implementation of the Act, DHS has reduced its improper payment amount from \$222 million in FY 2011 to \$178 million in FY 2013.

Our audit objective was to determine whether the Department of Homeland Security (DHS) complied with the Act in fiscal year 2013. In addition, we also evaluated the accuracy and completeness of DHS' improper payment reporting and its efforts to reduce and recover improper payments for fiscal year 2013.

We contracted with an independent public accounting firm, KPMG LLP, to determine whether DHS complied with the Act. KPMG LLP did not identify any instances of noncompliance with the Act.

We reviewed the accuracy and completeness of DHS' improper payment reporting and DHS' efforts to reduce and recover improper payments. DHS has made significant improvements to its processes in the past year to help ensure the accuracy and completeness in reporting improper payments and in its efforts to reduce and recover overpayments. Specifically, in the past year DHS has—

- segregated duties appropriately;
- improved its review processes to help ensure that components' risk assessments are properly supported;
- improved its policies and procedures to identify, reduce, and report improper payments; and
- improved its improper payment recovery efforts.

We did not make any new recommendations in this year's report. However, one recommendation in last year's report, *Department of Homeland Security's FY 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG-13-47, March 2013, remains open and resolved.



Background

On July 22, 2010, the President signed Public Law 111-204, *Improper Payments Elimination and Recovery Act of 2010* (IPERA or the Act). IPERA requires that the head of each agency periodically review all programs and activities administered, and identify those that may be susceptible to significant improper payments. For each program identified as susceptible to significant improper payments, the agency is required to produce a statistically valid estimate of the improper payments made by each program and activity. The agency is also required to include those estimates in the materials accompanying the agency's annual financial statement. See appendix C for additional information on the IPERA process.

The Office of Management and Budget (OMB) issued Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, revised parts I and II, April 14, 2011, as guidance for agencies to implement the requirements of IPERA. This guidance also describes the responsibilities of Inspectors General in determining their respective agency's compliance with IPERA. In accordance with OMB's guidance, the Inspector General should review improper payment reporting in the Agency Financial Report (AFR) and any accompanying information to ensure compliance with IPERA. As part of that review, the Inspector General should evaluate the accuracy and completeness of agency reporting, and evaluate agency efforts to reduce and recover improper payments, among other things.

The DHS Office of Inspector General (OIG) has previously issued two reports on DHS' compliance with the Act and the Department's efforts to reduce and recover improper payments. In the report, *Department of Homeland Security's Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG-12-48, issued March 2012, we identified that the Department needed to:

- improve controls to ensure completeness and accuracy of reporting;
- improve guidance; and
- increase efforts to recover improper payments.

Specifically, the Department should ensure that all payments subject to testing are tested and reported and that recovery audit rates are reported accurately. Independent parties should perform test work and review sample payments. Also, the Department should develop guidance on applying results of test work using alternative sampling methodologies. Finally, the Department should perform recovery audits when cost effective, and those audits should target payments with a higher potential for overpayment and recovery.



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In the report, *Department of Homeland Security's FY 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG-13-47, issued March 2013, we identified that DHS needed to improve controls to ensure the accuracy and completeness of improper payment reporting. Specifically, it needed to improve its review processes to ensure that the risk assessments properly support the components' determination of programs susceptible to significant improper payments. Furthermore, DHS needed to segregate duties adequately and improve its policies and procedures to identify, reduce, and report DHS and the components' improper payments.

Results of Audit

To comply with IPERA, an agency is required to conduct risk assessments and report and publish the results of selected program testing in its AFR. It must also achieve and report improper payment rates of less than 10 percent for each program. KPMG LLP (KPMG) did not identify any instances of noncompliance with IPERA.

Additionally, we reviewed DHS' processes and procedures for estimating its annual improper payment rates. Based on our review, DHS has improved its internal controls over the accuracy and completeness of agency reporting and in its efforts in to reduce and recover overpayments. Specifically, we did not identify any new internal control weaknesses in the current year. Also, DHS and the components' efforts in the past year have closed many of the open recommendations from the reports—*Department of Homeland Security's Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG-12-48, issued March 2012; and *Department of Homeland Security's FY 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG-13-47, issued March 2013. See appendix D for the one remaining open and resolved recommendation.

We also determined that the U.S. Customs and Border Protection (CBP) properly performed IPERA disbursement testing for the Border Security Fencing program.

DHS' Compliance with IPERA

We contracted with KPMG to audit DHS to determine whether it met the following requirements prescribed by IPERA:

- published an AFR and accompanying information on the agency website, as required by OMB;
- conducted required program-specific risk assessments;
- published improper payment estimates for high-risk programs;



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- published programmatic corrective action plans;
- published, and has met, annual reduction targets for programs at risk;
- achieved and reported a gross improper payment rate of less than 10 percent for all programs tested; and
- reported on its efforts to recover improper payments.

KPMG did not identify any instances of noncompliance with IPERA.

Accuracy and Completeness of DHS' Improper Payment Reporting

DHS has made significant improvements to its IPERA processes in the past year to help ensure the accuracy and completeness of its improper payment reporting. Specifically, DHS has—

- segregated duties appropriately;
- improved its review processes to help ensure that components' risk assessments are properly supported; and
- improved its policies and procedures to identify, reduce, and report improper payments.

Segregation of Duties

DHS has addressed prior audit concerns of CBP's segregation of sample testing duties. CBP implemented proper segregation of duties designed to reduce improper payments. In prior audits (fiscal years (FY) 2011 and 2012), CBP did not segregate duties for payment reviewers to minimize the risk of the potentially conflicting goals of correctly assessing payments and the achievement of improper payment reduction targets. The *Improper Payments Reduction Guidebook, Version 3.0* (Guidebook) requires that at a minimum, payment reviewers should not have had a role in processing, approving, and/or disbursing the specific payments under review. During FY 2013, CBP changed its policies to reflect the Guidebook's requirements. Specifically, the first question of its FY 2013 testing checklist now requires the processor to be different from the researcher.

Components' Risk Assessments

Since our FY 2012 audit, components have made some improvements in their processes to support the conclusions made in their risk assessments. Specifically, they interviewed the appropriate program personnel and obtained proper



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approval of the risk assessments. However, some components did not provide sufficient information in their risk assessments that would allow an outside reviewer to understand the key determinants of program risk.

Risk Assessment Interviews

In our prior audit, the United States Coast Guard (USCG) and CBP did not always perform interviews as part of their IPERA risk assessment process. Similarly, the Federal Emergency Management Agency (FEMA) performed interviews but did not interview program managers or senior management as required by the DHS Guidebook. During FY 2013, CBP and USCG appropriately performed interviews to support their risk assessments; and FEMA interviewed the appropriate program officials, as required. DHS has addressed prior audit concerns with CBP, USCG, and FEMA's risk assessment interview process.

Risk Assessment Approval

In FY 2012, the CBP Chief Financial Officer (CFO) or Deputy CFO did not review and approve CBP's final risk assessment prior to DHS Risk Management and Assurance (RM&A) Division's final review. According to the DHS Guidebook Version 3.0, the Component CFO or Deputy CFO must review and approve risk assessments prior to RM&A Division's final review and approval. In FY 2013, CBP's CFO reviewed and approved CBP's risk assessment as required by the Guidebook. Therefore, DHS has addressed prior audit concerns regarding CBP's CFO approving its risk assessment prior to RM&A Division's final review.

Risk Assessment Support

Consistently, components have not always provided enough information in their risk assessments that would allow an outside reviewer to understand the key determinants of program risk. The DHS Guidebook requires components to perform a comprehensive risk assessment to identify high-risk programs susceptible to making improper payments. To accomplish this task, the DHS Guidebook requires the components to perform the following:

1. Identify programs and determine population and scope of the component programs assessed.
2. Conduct and document interviews.
3. Populate a risk template.



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4. Validate risk elements and weights for each component program evaluated.
5. Identify programs at significant risk of improper payments.

Additionally, the DHS Guidebook requires components to evaluate programs across a set of risk conditions, which are factors that directly or indirectly affect the likelihood of improper payments within each program. Factors include payment processing controls, human capital, and operating environment, among others (see appendix E). The Guidebook requires that components assign a weight (risk weight) and score (risk score) to the risk conditions on each program's overall risk. The risk weight reflects the *level of importance and influence* and the risk score reflects the *degree* of risk conditions may pose to a particular program. The risk weight explanations should be included in the risk assessment and be understandable to an outside reviewer.

During our FY 2013 audit, CBP updated its risk assessment to include a rationale for each risk weight and score. However, as reported in FY 2012, the Transportation Security Administration (TSA) and FEMA risk weight explanations did not provide enough information to make them understandable to an outside reviewer. Specifically, all TSA risk weights relied on the following generic statement (or a slight variation of it):

All TSA payments are processed through the USCG Finance Center in Chesapeake, VA. All contracts payments are generally handled in the same manner. We determined the weight of each risk condition based on issues found during external audits, internal control reviews and interviews with program officials.

FEMA changed the risk weights for some risk conditions but used the same explanation for all programs.

DHS Guidebook

The DHS Guidebook provided components with background on applicable IPERA guidance and instructions to help the Department meet IPERA requirements. In prior years, components often relied on additional instructions to complete the Guidebook requirements because of the inconsistency of its instructions. The RM&A Division made some improvements to the Guidebook in October 2012 with Version 3.0. For example, the Guidebook updated the risk assessment templates; and stated the type of documentation that would be required from components to support risk assessments. The Guidebook also updated risk



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assessment questionnaires to be more comprehensive; and expanded the definitions of the risk conditions for payment processing controls and contract management. Because of these measures, DHS has addressed prior audit concerns of modifying the Guidebook to add clarification on how to complete the risk assessment.

DHS RM&A Division's Reviews

DHS RM&A Division has improved its review process to ensure that the components were properly supporting their risk assessments. The Division obtained and reviewed components' interviews to ensure the risk weights and scores had proper support. It also established standard operating procedures to identify how IPERA reviews and approvals will be coordinated. Despite these improvements, some components' risk assessments still did not have proper support.

Risk Assessment Reviews

During the FY 2012 audit, we determined that RM&A Division's risk assessment review consisted of comparing the FYs 2011 and 2012 risk weight and score narratives to identify differences. The Division review did not include obtaining and reviewing the summary interviews to ensure that the components properly supported the risk weights and scores. In FY 2013, the RM&A Division began reviewing the submissions and coordinated with the components when necessary to ensure that risk weights and scores are accurate and properly supported. The RM&A Division completed all reviews in March 2013. However, these reviews did not resolve outstanding issues with the support provided for risk weights in TSA and FEMA's risk assessments.

Standard Operating Procedures

Also in the FY 2012 audit, we determined that the RM&A Division frequently reviewed and approved IPERA deliverables using alternative methods instead of the required system. For example, USCG received an email message from the RM&A Division approving the test plan in May, but the system designated to document the test plan did not document RM&A's approval until September. According to the DHS Guidebook, components must obtain approval from the RM&A Division for each test plan before beginning any test work. In July 2013, the RM&A Division issued Version 1.0 of the Risk, Management, and Assurance, Improper Payments Program, Standard Operating Procedures, which explain



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how the Division will coordinate with components to review and approve IPERA test plans. During the current audit, all of the test plans were appropriately approved. This demonstrates that DHS has established standard operating procedures to address prior audit concerns of review and approval coordination with the components.

Reducing and Recapturing Improper Payments

DHS has made progress reducing and recapturing improper payments. In the FY 2011 audit, not all components conducted payment recovery audits as required by IPERA. Specifically, DHS decided not to perform recovery audits for the Domestic Nuclear Detection Office (DNDO) and TSA. The United States Secret Service (USSS) did not conduct a recovery audit because it did not enter into a recovery audit contract in time to perform an audit in FY 2011. Since the FY 2011 audit, DNDO and TSA have properly performed recovery audits as planned and reported in the Department's AFR. Also, as allowed by IPERA, USSS determined that it was not cost effective to perform recovery audits. DHS has addressed prior audit concerns regarding reducing and recapturing improper payments.

Disbursement Testing

CBP properly performed IPERA disbursement testing for the Border Security Fencing program. For FY 2012, CBP disbursed \$418.2 million in support of its Border Security Fencing program. As defined in the DHS sampling methodology, CBP tested 186 payments totaling \$106.5 million. During FY 2013, we retested 109 (\$66.8 million) of the original 186 payments and determined that CBP's improper payment error rate, 0.01 percent, was reasonable.



Appendix A

Objectives, Scope, and Methodology

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the Department.

The audit objective was to determine whether DHS complied with the *Improper Payments Elimination and Recovery Act of 2010* in FY 2013. In addition, we also evaluated the accuracy and completeness of DHS' improper payment reporting and its efforts in reducing and recovering improper payments for FY 2013.

The scope of the audit was DHS' FY 2013 efforts to comply with IPERA. We limited our scope to certain DHS components. We reviewed components identified in our audit, *Department of Homeland Security's FY 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG-13-47, issued March 2013, that were working on improving controls to ensure the accuracy and completeness of improper payment reporting. Those components were the United States Coast Guard, U.S. Customs and Border Protection, Federal Emergency Management Agency, U.S. Immigration and Customs Enforcement, and Transportation Security Administration. We also reviewed the Transportation Security Administration, Domestic Nuclear Detection Office, and United States Secret Service's progress in conducting recovery audits.

To understand DHS' requirements under IPERA and DHS' policies and procedures to meet those requirements, we obtained and reviewed relevant authorities and guidance. These included IPERA, OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, revised Parts I and II, April 14, 2011, and the DHS *Improper Payments Reduction Guidebook*. We also interviewed officials in DHS' Office of Chief Financial Officer and the selected components directly involved with IPERA implementation.

We contracted with an independent public accounting firm, KPMG LLP (KPMG), to determine DHS compliance with IPERA. The contract required that KPMG perform its audit in accordance with generally accepted government auditing standards. Those standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based upon the audit objectives.



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At each component, KPMG performed the following:

- obtained and read relevant authorities and guidance;
- interviewed component management;
- reviewed component policies;
- reviewed components' risk assessment processes;
- reviewed components' sampling plans and methodologies; and
- reviewed components' corrective action plans.

At DHS, KPMG reviewed DHS' FY 2013 AFR to determine compliance with reporting requirements.

To evaluate the accuracy and completeness of DHS' improper payment reporting, we reviewed the processes and procedures for DHS and the following DHS components:

- United States Coast Guard;
- U.S. Customs and Border Protection ;
- Federal Emergency Management Agency;
- U.S. Immigration and Customs Enforcement; and
- Transportation Security Administration.

Specifically, we performed the following procedures:

- reviewed components' risk assessments;
- reconciled components' risk assessments with FY 2012 gross disbursement data;
- reviewed sample test plans and results; and
- reviewed DHS' processes and procedures used to estimate the improper payment rate, including the risk assessment process, testing, and reporting.

We also reviewed DHS' efforts to recover improper payments for the following components:

- Domestic Nuclear Detection Office;
- Transportation Security Administration; and
- United States Secret Service.

To evaluate DHS' performance in reducing and recapturing improper payments, we determined DHS' progress in implementing Recommendation #5 from the audit report, *Department of Homeland Security's Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG-12-48, March 2012.



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We conducted sample payment testing for the CBP Border Security Fencing program only. To complete this testing, we obtained from CBP a listing of disbursements used to determine its Border Security Fencing estimate of improper payments. This listing contained 186 disbursements, of which we judgmentally selected 109 to re-perform IPERA sample testing. We reviewed contracts, invoices, and receiving documentation. We analyzed whether CBP properly determined proper and improper payments during the IPERA testing for the CBP Border Security Fencing program.

We conducted this performance audit between July 2013 and February 2014 pursuant to the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based upon our audit objectives.



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Appendix B

Management Comments to the Draft Report


U.S. Department of Homeland Security
Washington, DC 20528



**Homeland
Security**

April 3, 2014

MEMORANDUM FOR: Anne L. Richards
Assistant Inspector General for Audits
Office of Inspector General

FROM: Jim H. Crumpacker 
Director
Departmental GAO-OIG Liaison Office

SUBJECT: OIG Draft Report: "FY 2013 Audit of the Department of Homeland Security's Compliance with the Improper Payments Elimination and Recovery Act of 2010" (Project No. 13-018-AUD-DHS)

Thank you for the opportunity to review and comment on this draft report. The U.S. Department of Homeland Security (DHS) Management Directorate (MGMT) appreciates the Office of Inspector General's (OIG's) work in planning and conducting its review and issuing this report.

DHS MGMT is pleased to note that for the fifth year in a row, KPMG LLP, the Department's independent auditor, did not find any instances of noncompliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and its predecessor law the Improper Payments Information Act of 2002. In addition, OIG did not identify any new internal control weaknesses and it determined that the U.S. Customs and Border Protection had properly performed IPERA disbursement testing for the Border Security Fencing program. OIG also found that DHS and the Components' efforts during the past year had resulted in the closing of all open prior year IPERA-related recommendations except for one.

The draft report did not contain any new recommendations; however, OIG did request an update on progress being made to close the one remaining open prior year recommendation with which DHS MGMT had concurred. Specifically, OIG recommended¹ that the DHS Chief Financial Officer (CFO):

Recommendation: Ensure that the DHS Risk Management and Assurance Division requires all Components to provide detailed explanations and references to supporting documentation as to how they determined each risk weight and risk score.

¹ "Department of Homeland Security's FY 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010," OIG-13-47 (Washington, D.C., March 12, 2013).



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Update: The DHS CFO's Risk Management and Assurance Division (RM&A) continues to take actions during FY 2014 to fully meet the intent of this recommendation. Specifically, for the current year, RM&A has provided Components with guidance and direction on the proper support that is necessary to substantiate their risk scores and risk weights. Additionally, RM&A's FY 2014 processes and procedures include an extensive, beginning to end, review and analysis of Components' risk assessment documentation that will ensure Component risk assessments' weights and scores are fully substantiated by supporting documentation. This beginning to end review and analysis consists of the comparison of prior to current year risk assessments and the assurance that current year risk weights and scores correlate to current year net testable disbursements. As part of the FY 2014 IPERA testing cycle, RM&A has also implemented the use of a standardized interview template that provides Components with a structured questionnaire to ensure risk assessment content is based on identifiable program changes and risks. Estimated Completion Date: August 31, 2014

Again, thank you for the opportunity to review and comment on this draft report. Technical comments were previously provided under separate cover. Please feel free to contact me if you have any questions. We look forward to working with you in the future.



Appendix C

IPERA Process

On July 22, 2010, the President signed Public Law 111-204, *Improper Payments Elimination and Recovery Act of 2010* (IPERA or the Act), which amended the *Improper Payments Information Act of 2002* (IPIA). As defined by the IPIA, the term improper payment means:

- A. any payment that should not have made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and
- B. includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except where such payments were authorized by law), and any payment that does not account for credit for applicable discounts.²

IPERA requires that the head of each agency periodically review all programs and activities administered, and identify the programs and activities that may be susceptible to significant improper payments. These reviews shall take into account risk factors likely to contribute to the susceptibility of significant improper payments. According to IPERA, beginning with fiscal year 2013, a program is susceptible to improper payments if improper payments in the program or activity in the preceding fiscal year exceeded \$10 million and account for 1.5 percent or more of program outlays or \$100 million.

For each program identified as susceptible to significant improper payments, IPERA also requires that the head of the agency produce a statistically valid estimate, or use an OMB-approved methodology to estimate improper payments made by each program and activity, and include those estimates in the accompanying materials of the agency's annual financial report. For FY 2013, DHS identified 11 programs as high risk for improper payments based on FY 2013 risk assessments and FY 2012 payment sample testing. Of the \$13.8 billion in payments made for these high-risk programs, DHS estimates it made a total of \$178 million in improper payments, a 1.30 percent error rate.

² The Office of Management and Budget Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, April 14, 2011, also requires a payment to be considered improper when an agency's review is unable to discern whether the payment was proper as a result of insufficient or lack of documentation.



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Table 1: DHS FY 2013 Estimated Improper Payment Amounts and Rates

<u>DHS Component</u>	<u>Estimated Payment Population (\$ millions)</u>	<u>Improper Payments (\$ millions)</u>	<u>Improper Payment Rate (%)</u>
U.S. Customs and Border Protection			
Border Security Fencing	\$173	\$0	0.01%
Custodial - Refund & Drawback	\$1,937	\$7	0.36%
Federal Emergency Management Agency			
Disaster Relief Program – Vendor Payments	\$750	\$23	3.11%
Insurance – National Flood Insurance Program	\$2,127	\$0	0.02%
Grants – Public Assistance Programs	\$3,670	\$41	1.11%
Grants – Homeland Security Grant Program	\$1,699	\$22	1.31%
Grants – Assistance to Firefighters Grants	\$425	\$5	1.07%
Grants – Transit Security Grants Program	\$328	\$7	2.06%
Grants – Emergency Food and Shelter Program	\$89	\$0	0.34%
U.S. Immigration and Customs Enforcement			
Enforcement and Removal Operations	\$1,691	\$73	4.33%
National Protection and Programs Directorate			
Federal Protective Service	\$878	\$0	0.03%
DHS-All Programs	\$13,767	\$178	1.30%

Source: Data from DHS FY 2013 Agency Financial Report. DHS calculated its FY 2013 estimated improper payment rates using FY 2012 payment data. Improper payment rate variances due to rounding.

On October 23, 2012, the Office of the Chief Financial Officer, DHS Risk Management and Assurance Division (RM&A Division) issued version 3.0 of its *Improper Payments Reduction Guidebook* (DHS Guidebook).³ This Guidebook supports the Department's efforts to identify, reduce, report, and recoup improper payments. It also provides DHS Components with instructions for complying with IPERA, Executive Order 13520, and OMB guidance for the implementation of IPERA.

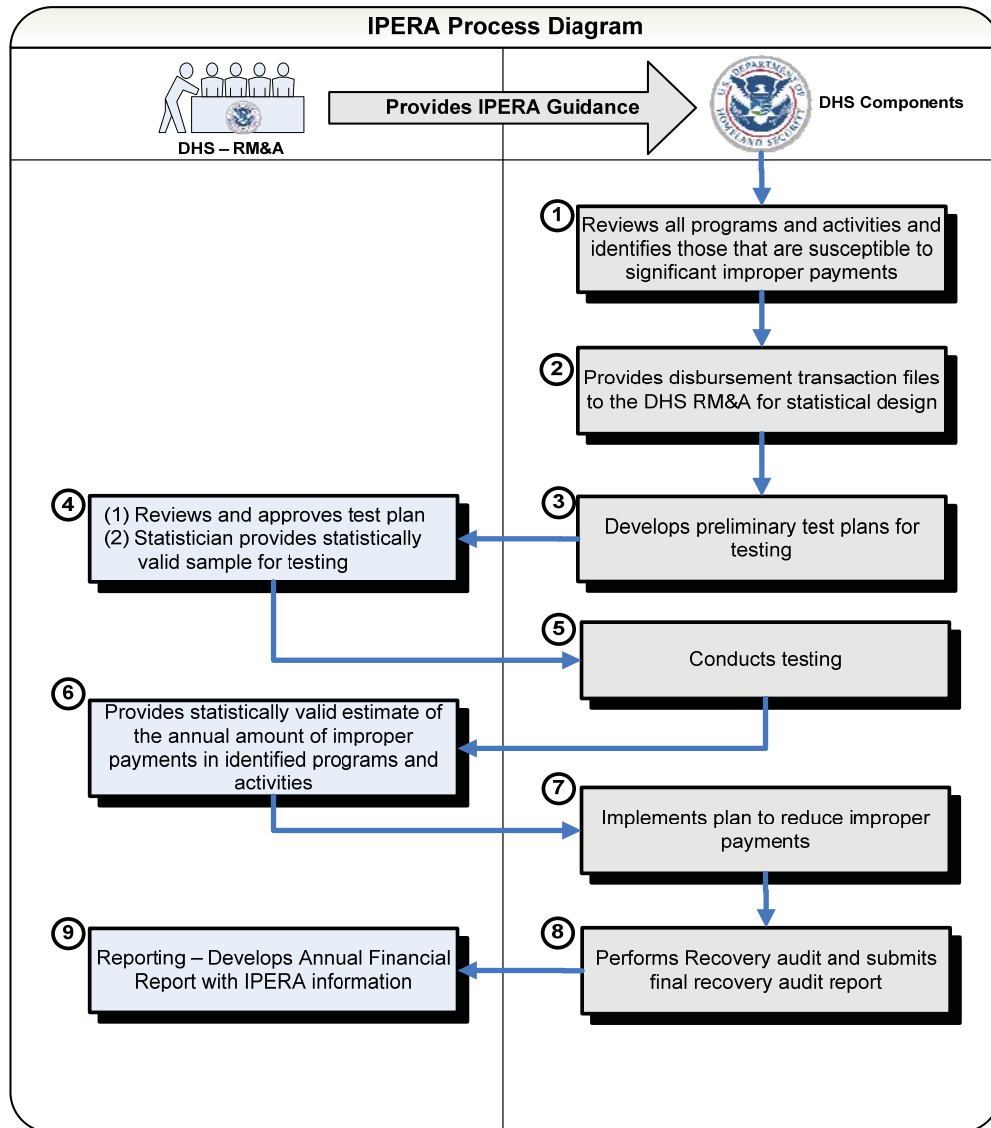
³ On June 10, 2013, the DHS Risk Management and Assurance Division issued version 4.1 of its *Improper Payments Reduction Guidebook* for use in FY 2014.



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The diagram below shows the process DHS Components are required to follow to identify, estimate, report, and recover improper payments.



Source: Information obtained from the Office of Chief Financial Officer, Risk Management and Assurance Division, *DHS Improper Payments Reduction Guidebook*, Version 3.0, October 23, 2012.



Appendix D

Open and Resolved Recommendation

**Open and Resolved Recommendation as previously reported in the
*Department of Homeland Security's FY 2012 Compliance with the Improper
Payments Elimination and Recovery Act of 2010, OIG-13-47, March 2013***

We recommend that the Chief Financial Officer, Department of Homeland Security ensure that—

Recommendation

DHS Risk Management and Assurance Division requires all components to provide detailed explanations and references to supporting documentation as to how they determined each risk weight and risk score.



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Appendix E

DHS IPERA Risk Conditions

DHS IPERA Risk Conditions	Description
Payment Processing Controls	<p>Management's role in the creation, implementation, and enforcement of internal controls.</p> <p>Existence of current and accurate internal control documentation.</p> <p>Assessment of design and operating effectiveness of internal control over payment processes.</p> <p>Identification of deficiencies within financial processes and internal control related to payment processes.</p> <p>Presence and effectiveness of compensating controls to reduce the risk of making an improper payment.</p> <p>Estimated error rates and amounts from previous year's testing.</p> <p>Extent that relevant external databases are used to verify recipient eligibility (e.g., Do Not Pay Lists).</p>
Quality of Internal Monitoring Controls	<p>Periodic internal program reviews to determine if payments are made properly.</p> <p>Presence and effectiveness of compensating controls that may provide real or near real-time monitoring capability.</p> <p>Support for test of design and test of operating effectiveness work.</p> <p>Extent and quality of monitoring to recipients to verify that funds are used for their intended purpose (Grants).</p>



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DHS IPERA Risk Conditions	Description
Human Capital	<p>Level of turnover within the program and average tenure of program staff.</p> <p>Qualifications of program staff (e.g., experience and training of personnel determining eligibility or certifying payments).</p> <p>Existence of pressures to perform (e.g., emphasis on expediting payments).</p> <p>Level of oversight and opportunity for fraudulent activity (e.g., the organizational structure of the program staff).</p>
Complexity of Program	<p>Time the program has been in operation.</p> <p>Variability of program interpretation and application (e.g., Laws, regulations, or standards required for the program's compliance).</p>
Nature of Payments and Recipients	<p>Types of payments (e.g., contracts, payroll, grants).</p> <p>Volume, size, and duration of payments.</p> <p>Number of vendors or contracts paid by the program.</p> <p>Identification of deficiencies or history of improper payments within recipients.</p> <p>Type and size of program recipients and existence of subrecipients.</p> <p>Maturity of recipients' finance function and financial infrastructure.</p> <p>Recipients' experience with administering Federal payments.</p> <p>Number of vendors being paid by the program (Contracts).</p>



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DHS IPERA Risk Conditions	Description
Operating Environment	<p>Existence of factors in the operating environment that necessitate or allow for loosening of financial controls.</p> <p>Recent major changes in program funding, authorities, practices, or procedures.</p> <p>Level of fraudulent activities associated with the operating environment.</p> <p>Management's experience with designing and implementing effective compensating controls.</p> <p>Issues identified with a component's financial systems.</p>
Contract Management	<p>Level of contract management weaknesses identified in previous payment testing.</p> <p>Frequency with which named contracting officer's representative reviews and approves invoices prior to payment.</p> <p>Level of familiarity of goods and services listed on invoices.</p> <p>Sufficiency of time to review invoices prior to payment.</p> <p>Complexity of funding sources, cost allocations, and contract lines.</p> <p>Timely payment of invoices per OMB guidance, which calls for disbursement of funds within 15 days of receipt of a proper invoice.</p> <p>Advantageous discounts are applied to those payments made within the discount window.</p> <p>Contractors are not reviewing and approving invoices on behalf of the government.</p> <p>Timely receipt and acceptance of goods and/or services.</p> <p>Proper calculation of prompt payment interest, if invoice is paid late.</p>



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DHS IPERA Risk Conditions	Description
Grant Management	<p>Nature of Recipients:</p> <p>SF 133 Audit Clearinghouse information on quality of controls within grant recipients.</p> <p>Layers of grantees receiving program payments.</p> <p>Quality of Internal Monitoring Controls:</p> <p>The extent and quality of monitoring of recipients to verify that funds are used for their intended purpose.</p> <p>Limited access to documentation to support disbursements to grant recipients.</p>

Source: Office of Chief Financial Officer, Risk Management and Assurance Division, DHS Improper Payments Reduction Guidebook, Version 3.0, October 23, 2012.



Appendix F

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Appendix G

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